Modi's empty election promises to India's farmers

NDA 2.0's Big Rural Challenge Will be Doubling Farmers' Income by 2022

Thursday 30 May 2019, by AGARWAL Kabir (Date first published: 30 May 2019).

There is a vast thicket of challenges that the new government will face in ensuring farmers get remunerative prices for their crops.

Few would argue that no bigger challenge awaits the new Narendra Modi government than raising the incomes of India's farmers.

The last five years saw large scale and widespread farmer protests built, primarily, on the back of low prices of crops. Bumper harvests in the early years of the first Modi tenure and the government's dogged determination to keep inflation in check have kept food prices controlled.

The protests, particularly the long march from Nasik to Mumbai, made the ruling National Democratic Alliance (NDA) nervous to a degree. In the last year, it moved to announce a range of corrective measures – increase in minimum support prices (MSP), increased procurement and price deficiency payments under PM-AASHA and later, the PM-Kisan income support scheme.

However, despite increased support, prices for several crops continued to be below even the MSPs that had been declared last year. PM-AASHA too failedto have any positive impact on procurement and prices.

Agitations and protests continued and, in fact, picked up momentum. Between September and November, Delhi saw three massive protests where farmers numbering over a lakh on one occasion were out on the streets.

The last large-scale protest was on November 30, 2018, where over 50,000 farmers gathered at Parliament Street. That particular protest even brought together heavyweights of the opposition like Rahul Gandhi, Sharad Pawar, Sitaram Yechury and Arvind Kejriwal on the same platform.

While farmer issues and rural distress formed key parts of the opposition's agenda in the last four months, it didn't translate into votes. Amidst its dominant performance in the 2019 Lok Sabha elections, the Bharatiya Janata Party (BJP) actually improved its vote share in rural India by 6.8%. The increase was higher than that in urban and peri-urban areas.

Clearly, a large proportion of those dependent on agriculture for their livelihood believes that Modi and the ruling dispensation have what it takes to solve their problems.

The BJP's key promise with respect to agriculture in its manifesto for 2019 was to double farmers' income by 2022, with 2015 being the reference year.

According to the NABARD's All India Rural Financial Inclusion Survey (NAFIS), the average monthly income per agricultural household in 2015-16 was Rs 8,931.

Doubling this figure by 2022 would require farmers' incomes to increase between 13% and 15% every year, according to Ashok Gulati, well-known agriculture economist and chair professor for agriculture at the Indian Council for Research on International Economic Relations.

The going, however, will not be very easy. Since 2014, rural wages have shown a declining trend with periods of negative growth, according to a working paper published by the Reserve Bank of India in April 2018.

This trend has continued. December 2018 saw the lowest ever rural wage growth for the month of December at 3.8%. In February 2019, real agricultural wages grew at only 2%.

Ensuring remunerative price for crops

If farmers got remunerative prices for their crops, there would be no rural distress.

The reality, though, is that Indian agriculture has become largely a loss-making enterprise. "Farmers don't cultivate crops, they cultivate losses," as Devinder Sharma, Chandigarh based agriculture policy expert, often laments. (Why don't farmers quit agriculture then? A lot of them – particularly the younger generation – would like to have the option of alternate employment. However, most don't as jobs are difficult to find. Unemployment is at a 45-year high.)

The impediments in the way of farmers getting a fair price for their crops range from supply gluts, low productivity, restrictions on where the produce can be sold, too many intermediaries and the disproportionate bargaining power of intermediaries.

Despite interventions like e-NAM, it's the buyers at the *mandi* who still call the shots. If a farmer has travelled 30 kilometres, unloaded her produce (which could be perishable), she does not have an option other than accepting the price offered by the buyer. She cannot reload and take her produce back. That would mean having wasted the cost of labour to load and unload, the cost of transport and the prospect of getting an even lower price.

Things don't look too good under the MSP regime either. Officially, MSP is declared for 25 crops. But, procurement happens in earnest only for a handful of crops in a handful of states. Only about 6% of farmers are able to sell their produce directly to procurement agencies.

Even when farmers are able to sell to procurement agencies, there is no guarantee that the price that they get will be equal to the MSP. As *The Wire*had analysed in October 2018, the market price for ten of the 14 Kharif crops that had declared MSPs was below the MSP.

For three crops, the market price was not only lower than the MSP declared that season, but also lower than the MSP declared in the previous season. In all, the total loss to farmers across the country amounted to Rs 1,000 crore in one month.

Recently, the government's think-tank, the NITI Aayog, has also admitted that farmers are selling at prices lower than the MSP.

The government could consider accepting the recommendation of the commission for agricultural costs and prices (CACP), a statutory body under the agriculture ministry. It had suggested, in July 2018, that the right to sell at MSP be made a legal right.

Farmer organisations too have demanded the same. In the last monsoon session of parliament, farmer leader Raju Shetty, who was then an MP, introduced the 'Right to Guaranteed Remunerative Minimum Support Prices for Agricultural Commodities Bill, 2018' as a private member's bill.

The Bill has lapsed with the dissolution of the 17th Lok Sabha. However, if the government wants to move towards doubling farmers' income, it could consider reintroducing the Bill or a revised version of it.

How effective?

How remunerative are the MSPs that are announced? Last July, the government had announced that in a 'historic move' it was increasing the MSPs to 50% over the cost of production and thus fulfilling the BJP's poll promise.

On closer inspection, *The Wire* discovered that the move was not 'historic' and the BJP had not fulfilled its poll promise. MSPs had been raised by that proportion several times in the past.

The BJP's poll promise was to set the MSP at cost (entire cost of production, Narendra Modi had said) plus 50% and implement the Swaminathan Commission recommendations.

When the government, in 2018, increased MSPs they used lower of the two costs (A2FL instead of C2, which had been recommended by the Swaminathan Commission). As a result, the MSPs were increased to cost plus 50% but the cost itself had been brought down.

The C2 cost, or comprehensive cost, includes, in addition to the actual cost of production and labour, the cost of imputed rent and interest on owned land and capital. A2FL, on the other hand, includes the imputed value of family labour but excludes the cost of rent and land, and thus is not the comprehensive cost, which Modi had promised will be considered when setting MSP.

So, the broad problems with the MSP regime are three-fold. One, only about 6% of farmers in the country are able to sell directly to procurement agencies. Two, prevailing market prices are generally lower than the MSPs set by the government for most crops. And three, the MSPs set by the government are not remunerative enough.

It is important to recall the purpose with which the MSP regime was instituted. The idea was that in case market prices fell below a certain minimum, the government would step in to procure.

And thus, MSP, in spirit, was the absolute minimum that a farmer would have to sell her produce at. This has now been turned on its head, and in most cases, the MSP is the maximum price that a farmer gets for her produce.

Ensuring remunerative prices for perishables

In the last five years, journalists across the country have captured angry tomato, onion and potato farmers dumping their produce on the streets as the price that they get for their produce is lower than what it would take to transport it back. So, it is more cost efficient to dump the produce rather than take it back to wherever they would store it.

Prices in the markets of these vegetables are extremely volatile and have crashed to below the cost of production for long periods, particularly after demonetisation.

The case of onions is instructive with regards to volatility. Between July 2016 and December 2018, the average price in major onion-producing states saw a high of Rs 2,600 per quintal and the low of Rs 450 per quintal.

The high was reached in December 2017 and just two months later, in February 2018, the price had crashed to about half at Rs 1,400 per quintal.

Part of the reason for the volatility is the seasonality of supply. As supply starts coming in, traders tend to purchase in bulk from buyers at low prices to make staggering sales. The traders then take advantage of higher prices in the offseason.

The problem can be solved, only in part though, by ensuring accessible and affordable cold storage facilities for farmers who produce these perishable crops.

In his 2018 Budget speech, Arun Jaitley, the then finance minister, had announced the introduction of 'Operation Greens' to address the problem of market volatility in the prices of tomatoes, onions and potatoes. He announced the allocation of Rs 500 crore to compress supply chains, create new storage infrastructure and facilitate food processing industries.

However, very little has happened under 'Operation Greens' since Jaitley's announcement.

To address the problem of market volatility in the markets of perishables, the government needs to move quickly, increase allocation and include all perishable crops under the scheme.

Reforming the APMC

It has, for some time, been common wisdom that the Agricultural Produce Marketing Committee (APMC) Act of 2003 needs reform. A key issue with the way the markets under APMC have functioned is that they have taken the form of monopolies or cartels where the seller has little bargaining power. The farmers are thus the price takers.

Additionally, issues of entry barriers in the form of high license fee, high rates of commission, delays in payment, restrictive regulations with respect to transport and restrictions on inter-state sale of produce, have plagued the APMC regime.

The Centre has introduced a model Agriculture Produce and Livestock Marketing (APLM) which aims to address some of these issues. Since agriculture is a state subject, states have to adopt the act or design their own to fix the issues with the existing APMC. That process has been slow.

Several states have done away with the act altogether with the result that unregulated mandis have sprung up. The prices in these mandis are more often than not even lower than the ones prevailing in an APMC mandi.

In March 2018, Modi wrote to states asking them to move quickly to reform the acts. "It is imperative to swiftly undertake market reforms of our decades old and restricted agriculture produce and marketing committee (APMC) architecture," he had said.

Now, with the new mandate, it is important that the Centre reform the agriculture markets soon and make it a part of its 100-day agenda. Ashok Gulati has suggested setting up an Agri-marketing Reforms Council, similar to the GST Council to carry out these reforms.

Income support alone will not do it

In the last few months, the debate around policy prescriptions to deal with the problem of low incomes in rural India has centred around the idea of income support in the form a direct benefit transfer.

The BJP introduced the PM-Kisan – a yearly unconditional transfer of Rs 6,000 for agricultural households who own less than two hectares of land. In its manifesto for 2019, it has promised to extend the scheme to all farmers.

The Congress had proposed the more complex NYAY, where the poorest 20% of households in the country would receive Rs 72,000 per year in the form of income support.

States too have introduced their own income support schemes like the Rythu Bandhu in Telangana and the Kalia in Odisha.

While income support schemes are necessary to provide a cushion to the rural household whose incomes have stagnated at best and declined at worst, they alone will not lead to a doubling of farmers' incomes – which according to NABARD's NAFIS were around Rs 9,000 per month in 2015. According to the same survey, the average outstanding debt of a rural household was Rs 91,407.

Clearly, the Rs 6,000 per annum transfer under PM Kisan will, by itself, do little to double farmers' incomes and address their woes. It needs to be complemented with a price mechanism that will ensure that farmers get fair and remunerative prices for their crops.

Kabir Agarwal

P.S.

The Wire
https://thewire.in/agriculture/modi-government-farmer-income